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OUR RURAL AND AGRICULTURAL SERVICES

• Farm and estate accounts
• Bookkeeping and software advice
• Technical and taxation
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• Change in business structure
• Property transactions
• Succession planning
• Business management
Looking back over the comments I made in last year’s Outlook, the downward trend in commodity prices has continued to spread through the farming sector, placing increased pressure on the bank balances of agricultural businesses and the need to improve performance.

As predicted last year, the Annual Investment Allowance has once again changed, increasing to £200k from 1 January 2016. Brian Carey from our Kent offices focuses on this and the recent Budget announcements in his tax article on page 6. However, it is not all about tax and, as already mentioned, ensuring your business has the required cash flow is essential. We look at this area with an article on page 7 by Natasha Root, from our Royston office, who has been speaking to three leading banks to find out the most successful ways to approach banks for funding.

Our guest article this year, from the Farm Business Survey on page 3, focuses on financial benchmarking and the ways in which this can benefit your business. If this is an area you have not previously considered, we strongly recommend spending some quality time benchmarking your business against those in the survey. The comparison will highlight areas of above and below average performance and identify areas that can be improved upon.

With an ageing farming population, succession planning is becoming a priority for a number of our clients, or at least it should be. This is an area to address early as the discussions, and ultimately the agreed plan, take time to implement. Charles Homan, from our Brighton office, outlines the key points to consider in his article on page 5, whilst illustrating why succession planning is one matter that should not be rushed.

Our top ten tips for 2016, on page 13, are a montage of points we recommend you consider. Hopefully at least one should strike a chord with you and provide an action point for the coming year.

2016 looks set to be a tough year for all concerned with constant reminders within the farming sector that things are not about to become easier any time soon. The ramifications of low commodity prices will continue to filter through the supply chain as farmers struggle to justify expenditure that is not essential for their operations. The farming press has been very constructive recently with ideas and information on new opportunities to weatherproof your business in the current climate. As such, it has never been more important to work closely with your advisers and we hope that you find the selection of articles in our 2016/17 Outlook both helpful and informative.

We wish you all the best for the coming 12 months and hopefully our insights will be of interest to you. If we can be of any assistance, please do not hesitate to contact us. We very much look forward to hearing from you.

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THE IMPORTANCE OF FINANCIAL BENCHMARKING

With falling farm incomes and low commodity levels looking set to continue into 2016, it is more important than ever for farm businesses to start taking a closer look at their numbers. Benchmarking your business to similar farms is just one way to do this, and it is a useful tool in assessing farm profitability. With many services available to farmers, Rachel Lawrence explains the benchmarking tools available from the Farm Business Survey.

What is the Farm Business Survey?

Established in 1936, the Farm Business Survey (FBS) collects and publishes detailed analysis of the financial and physical performance of almost 2,000 farms across England, every year. The resulting numbers are used across the farming sector providing the basis to agricultural costings books, industry advice and parliamentary questions.

Why benchmark with the FBS?

The FBS is the largest, independent source of its kind in England. Conducted by independent colleges and universities, the data is unique for three main reasons:

• it is a reflective sample; participating farms are selected based on data from the Defra June Census - covering a range of farm sizes and types. This means the sample is more representative of the real population;
• on farm data collection; specialist researchers work together with farmers to go through the business' records to complete a robust report of the whole farm business; and
• it is completely anonymous; it is impossible to identify any individual farm from the data the FBS publish.

Benchmarking with FBS data

Every year we publish the results of the survey in our printed enterprise reports, in which we see a range in financial performance between farms; for example, in 2014/15 around 45% of dairy farms made a profit of over £75k, whilst just under 10% failed to break even. Such variation can reflect factors such as farm size, soil type and location; but also financial efficiency. Financial benchmarking allows detailed analysis of all aspects of the business.

According to the latest FBS results, income from diversification totalled £530m on English farms in 2014/15. However, for around 20% of these farms, this figure was negative, yet for other businesses it made up to 25% of their total farm income. With 61% of farms in England now receiving some form of income from diversification, it is worth assessing this along with the other cost centres: agriculture, agri-environment schemes and subsidies (see graph below).

The survey results are categorised to be most relevant to farming businesses. Our ‘Crop Production in England’ report contains individual crop gross margins based on farm location, farm size and farm financial performance. We also categorise arable farms based on the crops they grow, as it is important to benchmark with similar businesses to get the most out of the results. Similarly, our livestock reports cover a range of pig, sheep and cattle enterprises including breeders, stores and fatteners. We also publish results for dairy, horticulture, upland, organic and poultry farms.

According to the latest Farm Business Survey results, income from diversification totalled £530m on English farms in 2014/15.
Online benchmarking
The FBS website, www.farmbusinesssurvey.co.uk, hosts a number of free to use benchmarking tools. These allow comparison of gross margins, net farm profit, balance sheets and performance ratios. Each of these options provides a different insight into your business, with the ability to compare against both the average and top performing businesses in each category.

Enterprise gross margins compare the financial return from investment on direct inputs - seeds, fertilisers and sprays for crops or feed, bedding, vet and medicine costs for livestock. It also allows for comparison of prices and yields.

Net farm profitability takes a look at the business overheads, how labour, machinery, land, property and finance costs compare between farms. The net profit figure gives an overall indication of the profitability of the farm business.

Balance sheets focus on the assets and liabilities of the business and compare these, on a per hectare or per farm basis, to other similar farms with the same tenancy status. The benchmarking page calculates the gearing and liquidity ratios based on the figures submitted, allowing you to compare both short and longer term financial stability.

Performance ratios provide a further insight into the financial performance of your business calculating performance indicators; figures such as the percentage return on capital, and labour or machinery costs per £100 turnover. Benchmarking these figures can provide an indication of financial efficiency within the business.

Financial planning
Creating a financial budget for the upcoming year can be a useful tool in making business decisions. The FBS runs a projection calculator to estimate input costs and farm income for the upcoming financial year. Using survey data, futures markets and exchange rates, prices are updated on a fortnightly basis. Users are able to input their own gross margins and farm account data, or simply use the projections from the survey results.

Of course, predicting the future is always going to be a risky business but taking a closer look at your farm's finances can be easier than you think.

2014 Enterprise reports are available to download free from: www.fbspartnership.co.uk and benchmarking is available at: www.farmbusinesssurvey.co.uk.

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Predicting the future is always going to be a risky business but taking a closer look at your farm’s finances can be easier than you think.

Per ha crop gross margins 2014/15
SUCCESSION WITHIN THE FAMILY FARM

As custodians of the farm, one of the biggest responsibilities for the family is to plan for succession. Getting it right can ensure that your hard work and investment will not be in vain and you can retire with peace of mind.

There is a saying that one generation earns the wealth, the next maintain the wealth and the third generation spend the wealth. Breaking this cycle is important.

For those in line to inherit there is a huge amount of pressure to perform and, therefore, preparations to take on this pressure will assist them with coping in a competent manner.

Within the larger family estates, there can often be some charity involvement. With older family members stepping down as trustees, appointing their children as trustees can prove to be a good route to involving the younger generation with stewardship of assets, development of a relationship with the professionals, a good introduction to the raft of legislation, and allowing them to take responsibility for the major decisions they will have to take.

Succession planning allows an orderly transfer of farm assets and business assets from one generation to the next. This is a long term strategy that requires thought and buy-in from all parties involved. Timing is crucial to ensure that recipients are groomed ready for their share of the assets and are at the right stage in their life to take on the responsibilities and rewards of ownership.

There are many tax implications related to the transfer of assets and these can have a larger effect on those inheriting assets and businesses, especially those not covered by the agricultural property relief.

Decisions on the division of the assets within the family will have very long term implications. The aim is for good communication with all parties to minimise the risk of expensive family conflicts and division which can occur many years in the future, even with future generations. It is useful for families to openly discuss the problem and reach an equitable or practical solution.

Historically, primogeniture was understood by most parties and the first born son inherited the estate. The many advantages of this clear route ensured that many estates remained intact and other members of the family understood why they were not inheriting.

It was the duty of the first born to accept the responsibility of the position and to provide for those other members of the family who did not inherit. Nowadays, many feel this is not fair, being gender based and harder on the other members of the family. The pressure on the first born son may be too great and this can push them off the rails. As a family you can discuss who has the wherewithal to run the businesses, who has the passion for the family farm and the knowledge to preserve and develop it. Identifying the main inheritor is the main task for the current owners and then understanding the safeguards required to protect that individual and the assets.

Part of the grooming of family members to take on the farm is to ensure that they understand how to make business decisions, when to ask for guidance and where to obtain appropriate advice. You learn by your mistakes, but it is far wiser and cheaper to benefit from the experience and mistakes others have already made.

The family farm and associated businesses impact upon each other. It is important to identify, at an early stage, the long term restrictions on sale or future developments to enable the farm to operate.

A business operated out of farm buildings may require a lease on the buildings rather than a share of the freehold to stop any future sale disrupting the rest of the farming operations.

Formulating the succession plan and getting it down in black and white for review and revision is the second hardest part of succession planning, after actually starting the process. Having a vision statement, along with short explanations of the decision making processes and your wishes, helps others to buy into the long term plan.

Encouraging all parties to discuss and build the vision plan will assist with buy-in. Some families will feel the pressure is relieved by having the wisdom of their trusted advisers present at such a meeting. We are happy to be an integral part of the process.

Many say that Inheritance Tax can be a voluntary tax and with the appropriate planning, this can be minimised. We are working with many farming and estate clients to assist them with inheritance and other tax planning. The opportunities with pension planning and trusts are amongst the tools to be used in planning for the future.

Integral with succession planning is the review and update of the Wills for all parties involved. Remember, it is never too late to plan for the future and failure to plan is planning to fail.

If you would like to discuss succession planning and the options available to you, please speak to me or your usual UHY adviser or find details of your local office at the back of the Outlook.

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OUR TAX ROUND UP

FARMERS AVERAGING

In the Budget 2015, the Government announced that it would extend the period over which self-employed farmers could average their profits for Income Tax purposes from two years to five years from 2016. A consultation with interested parties was then introduced on 8 July 2015, which ran until 7 September 2015. The results of that consultation, which suggested a two regime approach to the averaging of profits, were then published in December 2015.

The results of the consultation are included within the Finance Bill 2016, meaning individuals carrying on a qualifying trade of farming, market gardening or intensive rearing of livestock or fish can average fluctuating trading profits, over either a two or five year period. Therefore, the existing two year averaging scheme remains whilst a further additional option will be provided to average over a longer five year period.

The basic condition for the averaging to apply, all stems from whether the current year’s profit is:

- more or less than 75% of the previous year’s profit, in respect of the two year claim; or
- more or less than 75% of the average of the previous four year’s profits, in respect of the five year claim.

DIVIDENDS VERSUS SALARY/BONUS

It has been the case for some time now that dividends have been the cheapest mechanism for a director/shareholder to extract monies from the company, as generally the cost of the employer’s national insurance has far outweighed any Corporation Tax saving.

With effect from April 2016, a new mechanism for taxing dividends will be brought into play, such that basic rate taxpayers will pay 7.5% tax, higher rate taxpayers 32.5% and additional rate taxpayers 38.1%. There is now a £5,000 allowance meaning the first £5,000 of dividends received will be tax free but thereafter the rates of tax above will apply.

The Government has also announced that, with effect from April 2016, the Employment Allowance will increase to £3,000 from £2,000. So does this make salary/bonuses more attractive?

It certainly narrows the gap in the discussion between dividends and salaries but generally the dividend route will still be marginally cheaper. However, the figures will now need to be run a little more carefully.

CORPORATION TAX

Rates of Corporation Tax are to be reduced from the current 20%, to 19% from April 2017 and 17% for the financial year commencing 1 April 2020. Therefore, the level of profits achieved by a sole trader/partner will become lower at which point it would be more beneficial to be trading through a corporate entity than as a sole trader/partnership, from a tax perspective.

There are, however, a multitude of other reasons why a business trades through the medium it does but this change in tax rates may be the catalyst that a business needs for incorporating.

MINIMUM WAGE AND NATIONAL LIVING WAGE

The Government announced its intentions to introduce a National Living Wage by 2020 of more than £9 per hour. From April 2016, the National Living Wage will be set at £7.20 per hour, whilst the national minimum wage will remain at £6.70 for over 21s, with an uprating from October 2016 to £6.95. This will, therefore, mean that within four years there will be a large increase in salary costs to businesses, including farmers. These increases have been partly offset by the announced increase in the Employment Allowance but will, all in all, show an increase in salary costs for businesses.

Additionally, by 2020, all businesses will be within the workplace pension regime whereby employers and employees alike will be providing for the employee’s pension by contributing to a workplace pension at a defined percentage rate of the employee’s salary. Whilst this again will be an allowable expense of the business, it is still an additional expense and one that the business/farmer will need to budget for.

CAPITAL ALLOWANCES - ANNUAL INVESTMENT ALLOWANCE

We now have a degree of certainty about allowances on qualifying capital expenditure in that the allowance is now permanently fixed at £200,000 from 1 January 2016. There are transitional rules in place where a business’ accounting period straddles 1 January 2016 and advice and care should be taken within this period as a nasty shock can befall the unwary.

If acquisitions are timed incorrectly, not all the allowances that a business expects may be forthcoming immediately.

BENEFITS

Farming is not renowned as a highly paid occupation and so benefits, especially for the employees, may be a key consideration in their financial affairs. The 2015 Budget heralded significant changes to the benefits regime but on the Bill’s passage through the House of Lords, many changes were suggested and ultimately the benefit changes announced were rejected.

The Government was proposing to suggest alternative measures, however, in the 2015 Autumn Statement, the Chancellor announced that there would be no changes to the tax credit system.

CAPITAL GAINS TAX

In the 2016 Budget, reductions in Capital Gains Tax (CGT) were announced, meaning the current rates of 18% and 28% will be amended to 10% and 20%, except if the gains relate to chargeable gains on residential property, when the 18% and 28% rates still apply. The 28% rate will still apply to Annual Tax on Enveloped Dwellings related chargeable gains accruing to any chargeable person (principally companies).

Additionally, the previous 2015 Budget restricted the application of Entrepreneur’s Relief in certain incorporation situations and on associated disposals, however, the 2016 Budget has clarified certain areas of these rules such that the original 2015 restrictions have been slightly relaxed. Therefore, anybody who paid CGT on transactions that involved an Entrepreneur’s Relief claim post Budget 2015 may need to revisit this claim to consider if a repayment of CGT is relevant.

If you would like to discuss how any of these areas may affect you or your business, please speak to me or your usual UHY adviser or find details of your local office at the back of the Outlook.

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Traditional farming as we know it is constantly evolving. Diversification can bring new business activities to your existing farm and can provide a welcome boost to your income, however, that bright idea you have probably needs some initial funding. Even the birth of precision farming, which has enabled us to become more efficient, comes at a cost with the requirement for a significant investment in machinery.

There are a wide range of finance solutions available but your first port of call will most likely be your bank. As a result, we have asked three specialist agricultural managers, from three well known high street banks, to provide us with their valuable insights on the best ways for agricultural businesses to approach them for funding.

THE PANEL
Sheelagh Parrella, agricultural manager, Barclays
Paul Sullivan, senior manager, Lloyds
Jackie Mitchell, senior agricultural manager, NatWest

How should customers initially approach you for funding and does this always include a face-to-face meeting with their bank manager?

Paul Sullivan: “In an ideal situation there should be an early conversation about whatever it is that the client is looking to fund. There will, of course, be working capital needs that may come out of the blue which may make this difficult. Most people would expect that, for any reasonable sized request for funding, there will be a need for a face-to-face meeting which could then be followed up over the phone, if necessary. Understanding the business that we are dealing with is key and you cannot beat a first hand look at the set-up of that business. Farms are no different in this respect.”

What are the top three ‘must haves’ you suggest customers should include in their business plan when approaching you for funding?

Jackie Mitchell: “People: such as non-financial information, details on the individuals, their characters and abilities.

Purpose: a detailed explanation of what the funds are for, including the amount required, and the benefits and enhancements this will bring to your business.

Performance: financial Information – ideally historic, current and future with a particular focus on cash generation and an ability to repay any funding.”

And what’s one thing to avoid?

Sheelagh Parrella: “Rash assumptions for increases in yields without the foundation for how they will be achieved. Likewise, do not make the business plan so complex that it takes hours and hours of understanding.”

Business plan aside, what one thing can customers do to increase their chance of success when approaching their bank for funding?

Jackie: “Involve your bank as early as possible with all the relevant information to support the funding request and be realistic!”

How long does it take to process the average application for funding?

Paul: “Once we have all the information we need, obtaining agreement for the funding can be achieved in as little as 48 hours. We have managers and senior managers with local lending discretions of up to £1m in certain circumstances, so many decisions are made locally.”

There are a wide range of finance solutions available but your first port of call will most likely be your bank.
We often hear in the press that banks are not lending. What are you doing to help the rural and agriculture sector?

Paul: “Banks are lending and agriculture is one of the most favoured sectors for that lending. At Lloyds we lead the way in having had double digit growth on lending to farmers consistently over the last five years. More than eight out of ten applicants receive a positive response from us to their requests and, on the rare occasions that we cannot help, we would try and point the client in the direction of funding alternatives.”

Sheelagh: “Barclays Agriculture has a long history of supporting UK farmers which continues to this day and our lending is above that of the average official Bank of England statistics.

At Barclays Agriculture we are very much open for business and welcome approaches from a farming enterprise that can demonstrate the right management ability, has shown viability historically and which can show, through realistic budgets, viability going forward.”

Jackie: “NatWest is very aware of the issues that affect this sector and has put many schemes in place over the years. Recently, these have included assisting those adversely affected by the bad weather and also free bridging advances on the delayed Single Farm Payments.

For existing customers we will proactively provide a Statement of Lending Appetite in conjunction with their strategic plans for their business.”

A good relationship with your bank manager is important. How do you like to maintain this with your customers?

Paul: “Agree with your manager how often you would like to have a discussion or meeting, as regular contact is key in maintaining a good relationship. Banks should be happy to tailor this approach to each client’s needs to become a Trusted Partner.”

What is the most interesting project for which you have been approached for funding?

Sheelagh: “We assisted a project to install a fully automated dairy unit, with robotic milking machines and auto-feeders. It was a complete greenfield site and the farm was entering into the dairy sector for the first time. The combination of helping to establish something entirely new and the amazing agricultural-tech side of the project was fascinating to be involved with.”

IN SUMMARY

With so many challenges currently facing the industry, it is important to work closely with your advisers over the coming months. Your bank is no exception, not only for new projects and investment but also when you are experiencing a tightening of your cash flow. Once you have the idea for your next business venture, and that first hurdle is out of the way, hopefully approaching your bank for finance will not be quite so daunting!

Thank you to all our panellists for their time and valuable insights. If you would like to discuss funding and the options available to you, please speak to me or your usual UHY adviser or find details of your local office at the back of the Outlook.

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A FUTURE WITHOUT SUBSIDIES

The most recent Common Agricultural Policy (CAP) reforms have brought changes to all farming businesses. The biggest change for most farms will be a reduction in subsidy, with quite a drastic reduction for some. You may be able to withstand this loss of income, if you have invested previous years' subsidy wisely or planned for this drop in income. Alternatively, you may be farming good ground which can be farmed without subsidy anyway. Hopefully, you are not one of those working in more challenging conditions who are unable to bear any loss of support.

In light of these CAP reforms, and the undoubtedly shrinking subsidies, it is likely that you will need to make adjustments to how your farm business is run. There has been a significant focus in the farming press over the last year regarding the future profitability of farming businesses, and several roadshows have attempted to deal with this issue. Many of the recommended methods for addressing these issues appear to be 'easier said than done' in their attempts to improve farm profitability, whilst others seem fairly radical, even controversial to some.

The common issue with certain farms is that the people in charge are often averse to such changes and can be reluctant to hand over the reins to the next generation. In the not too distant future, it will be the younger generation who will have to live and work with the decisions made today.

There are generations of farmers who have farmed all their lives with subsidy, just as a matter of course, and this has sometimes been the only method of survival. Of course, we would not recommend refusing any subsidy, however, we would recommend attempting to farm without it, weaning your business off this reliance before the Government enforces it.

If you can start to make the business pay without subsidy, any funding that you receive is a bonus and can be reinvested into the farm, making it better placed to survive with less or no direct support at all.

We realise that putting this into practice may be difficult, but would encourage farmers to at least try.

If you would like to discuss subsidies and the options available to you, please speak to me or your usual UHY adviser or find details of your local office at the back of the Outlook.

FRS 102 FOR AGRICULTURAL BUSINESSES - VALUING YOUR STOCKS

A year has now passed since the introduction of Financial Reporting Standard 102 (FRS 102) and, for many the first accounts under the new regime will be prepared over the course of the next year, being those financial years commencing on or after 1 January 2015. In last year’s Outlook we looked at the provisions made within the standards for the agricultural sector, the first time that this has been specifically addressed with UK Generally Accepted Accounting Practice (GAAP). Although only mandatory for corporate businesses, since UK GAAP applies to unincorporated entities, the changes do extend to you should you choose to adopt them.

To recap, the new standard provides two options for valuing your stocks, referred to as ‘biological assets and related agricultural produce’ in the standard itself. You can either value at the lower of cost or net realisable value (in most cases this will historically have been the case), or take an alternative approach and value the stock at fair value less costs to sell at the year end.

The question arises as to why you might choose to adopt the fair value basis. Each business will need to be assessed on its own merits, though it may be that taking the fair value approach results in a higher stock figure which, in turn, can improve the asset position of the balance sheet. To some, this may be desirable particularly where there are external lenders or shareholders that require certain covenants to be met.

An initial uplift in stock as a result of a change to the fair value basis will have the consequence of creating additional profits and, therefore, an increase in tax liabilities in the year of change. Once the change to fair value has been adopted it cannot subsequently be changed back and so, other than the usual movements in stock being calculated on the fair value basis, there will be no significant impact on subsequent years.

For unincorporated businesses the additional tax cost may be an unfortunate consequence of securing a more favourable balance sheet, though whether any tax planning can be carried out to reduce the impact of the change will depend on your individual circumstances.

However, if you are operating through a limited company structure, there are provisions within the Corporation Tax Act 2009 that can lessen the immediate impact of the change in accounting treatment.
RURAL AND AGRICULTURE

FURNISHED HOLIDAY LETS

For many years, Furnished Holiday Lets (FHL) have received beneficial tax treatment. In the past they were treated as a trade for some tax purposes and, therefore, were advantageous over other lettings. These advantages included qualifying for Capital Gains Tax Rollover Relief, Holdover Relief, Entrepreneurs’ Relief, Income Tax benefits and, effectively, they were deemed to be outside a deceased person’s estate for Inheritance Tax purposes. However, this generous tax treatment has recently been reviewed and either the qualification criteria have been tightened or the relief has been removed altogether. Given the numerous changes, we have summarised the current position below.

QUALIFICATION RULES

To qualify as an FHL, a let property must meet four conditions, it must be:
1. in the European Economic Area;
2. let on a commercial basis, with a reasonable expectation of profit. Advertising and use of a website are viewed positively by HMRC;
3. let furnished; and
4. let, in a 12 month period, for at least 15 weeks, available for letting for at least 30 weeks and generally not occupied by the same person for more than 31 days.

If these conditions are not met in any one year then:
1. if a taxpayer owns a number of FHLs, the qualifying days can be averaged across all the portfolio; and
2. if a property does not qualify for one tax year in isolation, an election can be made to ignore this failure for 12 months.

INCOME TAX BENEFITS

1. All FHL profits are classed as relevant earnings for pension contribution purposes, unlike normal rental income.
2. Capital Allowances can be claimed on any capital expenditure. These are currently 100% on all expenditure up to £200,000 in a year. These allowances include not just the obvious items such as white goods, beds and furniture, but also integral features which may form part of the property when it is built or renovated.
3. Expenses can be claimed to reduce profits provided they are wholly and exclusively for the purposes of the FHL business. These include loan interest but not capital repayments.
4. FHLs are not affected by the withdrawal of interest relief on properties for rental, announced in the 2015 Budget.
5. If the property is owned by a husband and wife jointly, profits can be split in any ratio, regardless of the ownership of the property. This is particularly beneficial where one spouse is taxed at a lower rate than the other.
6. Losses cannot be offset against other income, but can be relieved against future income from any UK based FHL owned by the taxpayer. Foreign FHLs are treated as separate businesses.

CAPITAL GAINS TAX BENEFITS

1. Entrepreneurs’ Relief is available if the property is sold, meaning that the gain is taxed at the low rate of 10% instead of up to 28%.
2. Rollover Relief is claimable, allowing a taxpayer to defer the gains made on one asset sale by investing into an FHL or, vice versa, by deferring the gains on the sale of an FHL against the acquisition of another business asset.
3. Holdover Relief allows the gain on the gift of the FHL to be deferred.

INHERITANCE TAX BENEFITS

1. In certain circumstances Business Property Relief (BPR) may be available and Inheritance Tax on the value of the FHL avoided altogether. This is a very contentious area and clear professional advice should always be sought. HMRC have, in recent years, adopted a strict view when considering whether BPR applies. They require that a high level of service by the owner is demonstrated, otherwise they will simply argue that the property is no different from any other investment held for rent.

VALUE ADDED TAX

1. FHLs are within the scope of VAT and should be registered if the turnover threshold of £82,000 is exceeded.
2. Taxpayers should note that the FHL is not viewed in isolation from their other VAT-able activities and they may want to consider an appropriate business structure if they do not want to exceed the registration limit.

If you would like to discuss the changes to the tax treatment of FHLs, please speak to me or your usual UHY adviser or find details of your local office at the back of the Outlook.

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To add to the complexities, the volatility of farming resulting in substantial swings in profits and losses, along with the potential to average profits, may mean that you have less trading income than is anticipated when the initial level of pension contributions are set. If you pay more than £3,600 into a pension scheme and it subsequently transpires that you have insufficient UK relevant earnings to cover the contribution, you will be required to pay back the basic rate tax relief given at source to the Government via your tax return. Higher rate tax relief will also be restricted.

2. Consider making contributions from your farming company

For those of you operating through a limited company, it is common practice for the profit to be extracted by you as a director/shareholder by paying a relatively low salary and supplementing your income by paying dividends. From a personal taxation perspective, this may limit your ability to top-up your pension pot as far as you would ideally like to, owing to dividends not counting towards the relevant earnings mentioned above.

In these circumstances, it may be appropriate for the company to make a more significant pension contribution on your behalf. You would need to check with your IFA that the scheme into which you intend to pay the contributions could accept gross contributions from the company (since they are company contributions no basic rate tax is paid into the scheme on your behalf). If it can, the main area that needs to be addressed, in relation to Corporation Tax Relief, is that your remuneration package, as a whole, is reasonable for the position you hold. The company would secure the tax relief in the accounting period during which the premium was actually paid. It should be noted, however, that since this would reduce the company's profits it may affect your ongoing dividend policy.
3. Consider the timing of when and how to take your State Pension

Owing to the very nature of farming, it is often the case that you will still have substantial trading activity at the time you become entitled to start to draw your State Pension. If you have income from other sources, it may be undesirable to take the State Pension straight away, particularly if part or all of the State Pension would be subject to higher rate tax when received.

If you reach the State Pension age before 6 April 2016, you have the option to defer taking your pension and, providing it is deferred for at least twelve months, choosing whether to take a lump sum payment in respect of the deferred amount or, alternatively, a higher weekly amount when you eventually decide to take the pension.

If you elect to take the lump sum, it is important to note that the Income Tax paid on the lump sum will be charged at your marginal rate of tax for the tax year of receipt, as determined before the lump sum is taken into account. This can present a tax planning opportunity. Should you time the receipt of the lump sum in a year in which you may otherwise have no tax liability (for example, if you have suffered farming losses), or in a year where you expect to be a basic rate taxpayer when you usually would pay the higher rate, this can lead to a tax saving.

After the 6 April 2016 changes take effect, although you can still elect to defer the taking of your State Pension, when you come to take the pension there will no longer be a lump sum option. Instead, you will only be able to receive a higher weekly rate of pension.

4. Take your tax free lump sum from a personal pension

Once you reach 55 years of age, it is generally the case that your pension scheme will allow you to draw up to 25% of your pension savings as a tax free lump sum. This is often seen as an attractive way of releasing capital, particularly where the money can be used to clear down other debts such as a mortgage, or invested elsewhere. However, before taking any lump sum you should always take advice from your IFA to ensure that you have a full understanding of the wider consequences, such as the impact on your future pension income. There may also be Inheritance Tax considerations connected to the way in which you access your pension savings which, although outside the scope of this article, should be considered.

If you would like to discuss your pension and the options available to you, please speak to me or your usual UHY adviser or find details of your local office at the back of the Outlook.

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“After the 6 April 2016 changes take effect... when you come to take the pension there will no longer be a lump sum option.”
TEN TOPICS TO CONSIDER IN 2016

1. **Give your bank manager a call**
   When was the last time you spoke to your bank manager? Keeping in touch throughout the year and maintaining a good relationship with your manager can save dividends next time you need something from them! The more your manager knows about your business, the better placed they will be to help you. Give them a call and update them on one of your recent success stories or your latest idea for the future.

2. **Review your machinery running costs**
   In the industry today, there are various advanced software packages available that will enable you to track how much each piece of machinery is costing you to run. However, if you do not have access to this type of software there is no reason you cannot calculate these costs yourself. Simply note down how much each bit of machinery has cost you to run, as well as repair costs, over the last few years. It may very quickly become obvious what needs replacing or investing in. Make your money work harder for you by spending it in the right areas.

3. **Visit the Farm Business Survey website**
   Benchmarking your business against similar farms is a useful tool in assessing farm profitability and developing your business. By comparing your business against others you can identify your strengths and the areas which require improvement. As discussed on page 3, The Farm Business Survey offers a free service that allows you to compare your farm’s performance against the national average. Log onto www.farmbusinesssurvey.co.uk and see how you compare.

4. **Update your internal accounting system**
   A good piece of software does not need to cost the earth and, if used correctly, can be invaluable to your business. The ability to run financial reports at the click of a button will enable you to make more informed decisions, control your costs and keep an eye on your margins. Tidy business records often result in cheaper accountancy fees too!

5. **Hold a strategic planning meeting**
   How often do you take the time to think about the future of your business without getting distracted by the here and now? It does not matter what sector of industry you operate in, it is always useful to set aside some quality time to think about how well you are placed to deal with what the future holds. The next two to five years are likely to be tough, with much uncertainty and volatility expected for the sector. You need to ensure your business is as robust as possible in order to deal with any unexpected events. We recommend arranging a strategic planning meeting with your business partners and advisers to discuss your ideas before putting them into action. This will ensure you have full support and understanding throughout your organisation and will aid the success of its implementation.

6. **Revisit your Will and Partnership Agreement**
   When was the last time you revisited your Will or Partnership Agreement (PA)? With recent Inheritance Tax changes, we strongly recommend reviewing your Will and PA to ensure valuable reliefs are not wasted. Additionally, the introduction of the Basic Payment Scheme (formerly Single Farm Payment) means that if you made your Will before 2003, and it has not been updated since, difficulties could arise with the potential for assets to be distributed with the residue of the estate rather than passing to the person who inherits your farm.

7. **Review your cash flow regularly**
   At a time of low wheat prices, lower Basic Payment Scheme payments (due to unfavourable exchange rates) and adverse, unexpected weather conditions, there is greater risk of unforeseen costs and issues which could cause cash flow problems. To prepare for these unexpected issues, we advise that you review your cash flow regularly to ensure you are always covered. Creating and regularly updating your cash flow forecast can identify potential shortfalls in cash balances early, giving you time to consider what corrective action to take.

8. **Review your VAT position**
   With VAT becoming increasingly complicated, the risk of overlooking something important has never been more acute. It is, therefore, worth remembering that where you have both taxable and exempt activities, and need to calculate how much VAT you can reclaim, you do not need to use the normal income-based method if it is not giving you a fair outcome. We recommend a periodic overview of the entire business operation, also taking into account any future business changes planned.

9. **Consider the benefits of diversification**
   According to the Government, around half of all UK farms have some form of diversified activity in their farming business and these bring an average of £10,400 extra revenue per farm. Other benefits from diversifying can include making better use of your resources, finding new uses for existing skills, spreading your risk and improving your economic viability. Before deciding to diversify, you should carry out a detailed assessment of your existing business and contact your advisers who can help recommend the best route forward.

10. **Prepare for auto-enrolment**
    With auto-enrolment applying to all businesses by April 2017, it is of upmost importance that your farm is prepared as failure to comply could incur penalties of up to £50,000. Under auto-enrolment you are responsible for assessing your workforce, enrolling your employees, providing ongoing maintenance of the scheme and maintaining certain records. If you feel you need more time to prepare, businesses do have the option to postpone their staging date by up to three months. For further information we strongly advise you speak to your usual UHY adviser and visit the Pensions Regulator website at www.thepensionsregulator.gov.uk.
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